

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ADP-00 COME-00 INT-08 AID-20 CIAE-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08

CEA-02 L-03 H-03 DODE-00 PA-03 USIA-15 PRS-01 GSA-01

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FM AMEMBASSY BUENOS AIRES

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E.O. 11652: N/A

TAGS: EIND, ETRD

SUBJ: US EXPORT CONTROLS ON STEEL SCRAP; ARGENTINE REQUEST
FOR CONSIDERATION

REFS: A) STATE 136432; B) BA-5386

1. ECOMCOUN CALLED TO FOREIGN MINISTRY JULY 25 WHERE MET BY NEW DIRECTOR OF INTERNATIONAL ECONOMIC AFFAIRS, JOSE MELERO, WHO MADE ORAL PRESENTATION REQUESTING THAT, SHOULD US ADOPT QUOTA SYSTEM FOR FUTURE STEEL SCRAP EXPORTS, SPECIAL CONSIDERATION WOULD BE GIVEN TO ARGENTINE NEEDS. SPECIAL CONSIDERATION REQUIRED BECAUSE ANY QUOTAS BASED ON HISTORICAL RECORD WOULD BE PREJUDICIAL TO ARGENTINA AND RESULT IN LARGE SCALE SHUTDOWNS OF STEEL CAPACITY, CONSEQUENT SHORTAGES OF SUPPLIES TO INDUSTRY, UNEMPLOYMENT AND SEVERE COMPLICATION OF NEW GOA'S ECONOMIC PROBLEMS. ARGENTINE STEEL INSTITUTE HAS SENT REP TO WASHINGTON ON PROBLEM AND ARGENTINE EMBASSY EITHER HAS OR WILL CONTACT DEPT OF STATE.

2. FO OFFICIAL SPECIFICALLY REQUESTED THAT US MAKE SPECIAL EFFORT
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TO SEE THAT ARGENTINA'S PUBLIC ENTERPRISE AND PUBLIC STEEL INDUSTRY

BE ALLOWED PURCHASE 300,000 TONS SCRAP SECOND SEMESTER 1973 AND 550,000-660,000 TONS IN 1974.

3. OVER LONG PERIOD ENDING IN LATE 1960'S ARGENTINA'S RELATIVELY INADEQUATE STEEL MAKING CAPACITY WAS COMPOSED LARGELY OF NON-INTEGRATED MILLS. ARGENTINA HAS LONG HISTORY OF SCRAP IMPORTS, FREQUENTLY INCLUDING US AS SOURCE. BY LATE 1960'S BASIC STEEL CAPACITY HAD GROWN SO THAT THERE WAS FOR A SHORT TIME, EXTENDING ROUGHLY FROM 1968 THROUGH 1970, A BALANCE BETWEEN DOMESTIC SOURCES OF SCRAP AND DEMAND. IMPORTS THEN WERE MINIMAL. IN 1970 THREE ADDITIONAL NON-INTEGRATED MILLS WERE PUT INTO OPERATION USING SCRAP AS THEIR BASIC RAW MATERIAL. FOR 1971 AND 1972 US TRADE DATA SHOWS EXPORTS TO ARGENTINA OF 126,000 AND 462,000 TONS RESPECTIVELY. NEEDS NOW ARE EVEN GREATER BECAUSE AT THE MAJOR STATE STEEL INDUSTRY PLANT RECENT INTEGRATED MILL EXPANSION HAS ENCOUNTERED TECHNICAL PROBLEMS AND DELAYS; THOUGH SIEMENS MARTINS CONVERTERS ARE NOW OPERATIONAL, ADDING TO NEED FOR SCRAP, BUT BLAST FURNACES FOR PIG IRON WILL NOT OPERATE UNTIL FOURTH QUARTER.

4. ALL OF OUR SOURCES AGREE THAT ARGENTINA HAS NORMAL NEED FOR 600,000 TONS SCRAP IN 1973 AND WILL ENCOUNTER SERIOUS PROBLEMS IF SUPPLIES DO NOT REACH 500,000. ALTHOUGH IN THE OFFICIAL REQUEST WE RECEIVED THERE WAS SOME CONFUSION CONCERNING THE AMOUNT WHICH HAS BEEN ALREADY CONTRACTED FROM THE US, WITH THAT FIGURE VARYING FROM 250,000 TO 300,000 TONS, APPARENT NEED FOR REMAINDER 1973 STANDS AT 300,000 TONS.

5. THIS EMBASSY HAS RECEIVED NO FURTHER OFFICIAL INFORMATION CONCERNING USG PLANS FOR IMPLEMENTING STEEL SCRAP EXPORT CONTROLS SINCE ARRIVAL REF (A). GOA AND TRADE BELIEVE THAT THEY HAVE SOLID INFORMATION THAT US WILL ESTABLISH QUOTAS LIMITING EXPORTS WITHIN AVAILABILITIES, WITH SHARING OF EXPORTABLE SUPPLIES AMONG MAJOR FOREIGN CUSTOMERS GEARED TO HISTORICAL PURCHASES IN THE US. RELATIVELY UNIMPORTANT ARGENTINA PURCHASES OF SCRAP IN PERIOD IMMEDIATELY PRECEDING 1971/1972, COMPARED WITH PRESENT NEEDS, WOULD CERTAINLY IN SUCH CIRCUMSTANCES SEVERELY HANDICAP NOT ONLY ARGENTINE STEEL BUT ALL OTHER LOCAL INDUSTRY. IF ARGENTINE MILLS CANNOT SECURE SUBSTANTIAL PORTION OF SCRAP REQUIRED FOR REASONABLY FULL SCALE OPERATION, SHORTAGES OF PRODUCT WILL HAVE SERIOUS REPERCUSSIONS ON FABRICATING INDUSTRY AND ON ECONOMY AS A WHOLE.

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ARGENTINA, WITH ITS STEEL INDUSTRY STILL RELATIVELY UNDEVELOPED IN RELATION TO STEEL PRODUCT CONSUMPTION, HAS BEEN HEAVY IMPORTER STEEL FINISHED PRODUCTS FROM ALL SOURCES. RECENTLY, ROLLED PRODUCTS USERS HAVE BEEN HAVING GREAT DIFFICULTY SECURING THEIR NEEDS IN WORLD MARKETS AND SHORTFALL PRESENT DOMESTIC STEEL OUTPUT WOULD SERIOUSLY COMPLICATE SITUATION.

6. NEW GOA, HOLDING BEST OPPORTUNITY FOR SEMI-PERMANENT POLITICAL

STABILITY WHICH HAS APPEARED IN ARGENTINA FOR MANY YEARS, IS HEAVILY ENGAGED IN ATTEMPT REORDER FLAGGING ECONOMY AND CORRECT PROBLEMS WHICH COULD RESULT IN SERIOUS SOCIAL UNREST. IT IS EXCEEDINGLY ILL EQUIPPED AS YET TO DEAL WITH A SERIES OF PROBLEMS WHICH COULD ARISE FROM INDUSTRIAL SHOWDOWN DUE TO LACK SCRAP IRON, STEEL AND STEEL PRODUCTS. AS IN THE US, A SHORTAGE OF SUCH PRODUCTS WOULD GREATLY COMPLICATE EFFORTS TO DAMPEN INFLATION.

7. EMBASSY BELIEVES PROBLEMS OUTLINED ARE OF MAJOR IMPORTANCE FOR ARGENTINE ECONOMY. OFFICIAL APPROACH FROM FO WAS OBVIOUSLY ORIGINATED BY CONCERN OF MAJOR STATE ENTERPRISE CHARGED WITH MANAGING STEEL EXPANSION PROGRAMS FOR ARGENTINA WHICH WAS REPORTED IN REF (B). HOWEVER, PROBLEM IS NOT ONE WHICH ONLY AFFECTS ONE ENTERPRISE. WE ARE CONVINCED THAT IT AFFECTS ALL OF ARGENTINA'S PUBLIC AND PRIVATE STEEL INDUSTRY AND WILL HAVE MAJOR IMPACT ON ECONOMY. WE ARE REPORTING IN PRESENT SUMMARY FASHION SO THAT DEPARTMENT AND US AUTHORITIES ARE PROMPTLY MADE AWARE OF OFFICIAL ARGENTINE CONCERN AND APPROXIMATE SIZE OF PROBLEM. EMBASSY PREPARING ON PRIORITY BASIS MORE EXTENSIVE ANALYSIS WHICH WILL ATTEMPT MEASURE MORE CLOSELY SEVERITY OF PROBLEMS WHICH MIGHT RESULT FROM SHORTFALLS IN STEEL SCRAP SUPPLIES.

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